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HART SCHAFFNER & MARX



Thirty-fourth Annual Report
November 30, 1944

MRX
CORP. FILE

HART SCHAFFNER & MARX

CHICAGO

NEW YORK

January 16, 1945

To the Stockholders of
Hart Schaffner & Marx

The results of the operations of your company for the fiscal year ended November 30, 1944, are set forth in the accompanying report. The company and its subsidiaries show a consolidated net profit of \$1,392,596. This compares with a consolidated net profit of \$1,631,319 in 1943.

Out of earnings for the year there has been appropriated the sum of \$100,000 which has been added to the Reserve for Contingencies. The corresponding appropriation for the previous year was \$200,000. While no substantial contingencies are envisaged your management has considered it prudent to build up this reserve which now amounts to \$700,000.

Shipments of the parent company showed a satisfactory gain over those for the previous year. The retail store subsidiaries also showed a gratifying increase in sales. Increased costs in the case of the parent company and higher taxes in the case of the retail affiliates account for the fact that the consolidated earnings are lower than for the previous year in spite of a larger volume of business.

The company has for a number of years manufactured uniforms under contracts which are subject to the contract renegotiations provisions of the War Profits Control Act. In connection with the contracts completed prior to November 30, 1943, the company has received clearances from the Price Adjustment Board of the War Department indicating that no excessive profits were realized. Similar clearance is anticipated with respect to the contracts completed during the 1944 fiscal year. It is unlikely that an adjustment, even if there were one, would have any material effect on the company's net income for the year, and any liability in this respect is amply covered by the Reserve for Contingencies.

By action of the stockholders on March 17, 1944, the capital stock of the company consisting of 150,000 shares of common stock, \$20.00 par value, was changed into 375,000 shares of common stock, \$10.00 par value. All stockholders were thereby

entitled to receive $2\frac{1}{2}$ shares of the new par value stock in exchange for each share of old stock of \$20.00 par value. The action resulted in a transfer of \$750,000 from the capital surplus to the capital stock account.

During the past year a number of the larger stockholders made arrangements to distribute 120,500 shares of the new \$10.00 par value stock of the company. In connection with this distribution a registration statement was filed with the Securities Exchange Commission on February 25, 1944. The company now has 2,061 stockholders widely distributed throughout the country and it is felt that this broader ownership will inure to the benefit of the company.

Your directors also consider it desirable to list the stock of the company on the New York Stock Exchange. An application for listing is in process of being filed with the Securities Exchange Commission.

While the company has concluded a profitable year your management considers it prudent to call attention to a number of problems which lie ahead. In addition to the general uncertainties inherent in a war period there are a number of specific problems arising from shortages of raw materials and higher operating costs. The company faces narrower profit margins in its wholesale operations by virtue of the fact that it is required to absorb certain increased costs in a price structure which, under existing Government price regulations, is relatively inflexible.

The difficulty of obtaining raw materials affects all aspects of the business. Under regulations of the War Production Board a very large proportion of the capacity of the textile industry will, during the next few months, be devoted to military requirements. This will reduce the amount of cloth available for civilian clothing. The clothing industry will also be required to undertake substantial production for military needs. This program is likely to have a serious effect on the industry but the needs of the Army must be met and your company will cooperate wholeheartedly in the production of those items which it is called on to make.

There is every indication that the company will be in a position to benefit in the post-war period from the increased interest in its product which has been demonstrated by its customers and by the consuming public.

Respectfully submitted,

MEYER KESTNBAUM

President

HART SCHAFF

A New York

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

Assets

Current Assets:

Cash in banks and on hand		\$ 4,258,851
United States Treasury tax notes—at cost		897,600
Other United States Government securities—at cost		287,114
Trade notes and accounts receivable—		
Notes	\$ 171,300	
Accounts	3,068,137	
	<u>\$ 3,239,437</u>	
Reserves for doubtful notes and accounts and discounts	499,617	2,739,820
Other notes and accounts receivable (including \$53,237 due from employees)		116,318
Inventories—		
Factory inventories at cost or market whichever is lower for current season's goods and estimated realizable values for past seasons' goods; inventories of retail stores at cost or market whichever is lower computed by the retail method (less estimated intercompany profit)		7,699,553
Total current assets		<u>\$15,999,256</u>

Other Assets:

Cash surrender value of insurance policies on lives of officers of certain subsidiaries	\$ 32,847	
Sundry investments (at cost) and loans, less reserve of \$47,781	84,166	
Postwar credit of excess profits tax, including \$18,278 of refund bonds	67,478	
Lease deposits	<u>15,000</u>	199,491

Properties—at cost, less reserves for depreciation and amortization:

Shop equipment, furniture and fixtures	\$ 3,327,867	
Reserve for depreciation	<u>2,586,831</u>	
	\$ 741,036	
Leasehold improvements—less amortization	284,126	
Leaseholds—less amortization	<u>8,065</u>	1,033,227

Deferred Charges:

Prepaid rentals, insurance, supplies, etc.		248,475
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Goodwill, Trade Names and Trade-Marks,
at record value

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<u>\$17,480,450</u>

NER & MARX

Corporation

Y COMPANIES

SHEET—NOVEMBER 30, 1944

Liabilities

Current Liabilities:

Trade accounts payable		\$ 777,083
Other accounts payable (including employees' deposits of \$36,395 on United States War Savings Bonds)		456,980
Accrued liabilities—		
Salaries, wages and rents	\$ 576,072	
Taxes, other than taxes on income (less escrow de- posits of \$28,402)	259,820	
Federal and state taxes on income	1,917,267	2,753,159
Total current liabilities		<u>\$ 3,987,222</u>

Minority Stockholders' Interest	41,783
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Reserve for Contingencies:

(See comments in president's letter to stockholders)		
Balance, November 30, 1943	\$ 600,000	
Appropriation out of 1944 earnings	<u>100,000</u>	700,000

Capital Stock and Surplus:

Common stock—authorized and issued—375,000 shares, par value \$10.00 each	\$ 3,750,000	
Surplus—(per accompanying statement)		
Capital surplus	1,422,975	
Earned surplus	<u>7,770,645</u>	
	<u>\$12,943,620</u>	
DEDUCT—Treasury stock—19,217½ shares at par	<u>192,175</u>	12,751,445
		<u><u>\$17,480,450</u></u>

HART SCHAFFNER & MARX

A New York Corporation

AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED NOVEMBER 30, 1944

Profit before provision for federal and state taxes on income		\$ 3,387,152
Provision for federal and state taxes on income (after deducting credit realized through debt retirement of certain subsidiaries), less postwar credit of \$44,152		1,885,619
Net profit for the year		<u>\$ 1,501,533</u>
<i>Deduct:</i>		
Portion of net profit applicable to minority interests	\$ 8,937	
Appropriation for contingencies	100,000	108,937
Balance carried to earned surplus		<u><u>\$ 1,392,596</u></u>

CONSOLIDATED STATEMENT OF CAPITAL AND EARNED SURPLUS

FOR THE YEAR ENDED NOVEMBER 30, 1944

	Capital Surplus	Earned Surplus
Balances at November 30, 1943	\$ 2,165,231	\$ 6,804,988
Net charge arising from recapitalization authorized by stockholders on March 17, 1944	742,256	—
Balance from profit and loss statement for the year ended November 30, 1944	<u>1,392,596</u>	<u>1,392,596</u>
Dividends paid	<u>\$ 1,422,975</u>	<u>\$ 8,197,584</u>
Balances at November 30, 1944	<u><u>\$ 1,422,975</u></u>	<u><u>\$ 7,770,645</u></u>

REPORT OF ACCOUNTANTS

To the Board of Directors of

Hart Schaffner & Marx

We have examined the consolidated balance sheet of Hart Schaffner & Marx as of November 30, 1944 and the related consolidated statements of profit and loss and surplus for the fiscal year then ended. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances, and included such tests of the accounting records and other supporting evidence and such other procedures as we considered necessary. Under a plan of periodic audits, we visited a number of the subsidiaries as of July 31, 1944 and these included the principal subsidiaries of the company except one which was examined by other independent accountants. In respect of all subsidiaries we were furnished, as of November 30, 1944, with their financial statements supported by details of inventories, receivables and other data, and obtained direct confirmations in respect of bank balances. The books and records of the subsidiaries not independently examined or tested have been audited during the year by internal auditors employed by the company, and the financial statements and internal auditors' reports have been subjected to our review. On the basis of such review, supplemented by inquiries we have made, we are of the opinion that the accounting procedures followed by these subsidiaries are in accordance with accepted principles of accounting maintained by the subsidiaries whose records were independently examined during the year. The combined assets, sales and net income of the subsidiaries (unimportant individually) which were not independently examined are, in the light of the tests which we have made, not material in relation to the consolidated total assets, sales and net income.

In our opinion, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus present fairly the consolidated position of Hart Schaffner & Marx and its subsidiaries as of November 30, 1944 and the results of their operations for the fiscal year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding fiscal year.

PRICE, WATERHOUSE & CO.

CHICAGO,

January 15, 1945.

